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NATIONAL INTELLIGENCE DAILY CABLE

Friday September 10, 1976

CI NIDC 76-213C

NATIONAL SECURITY INFORMATION

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Approved For Release 2007/03/08 : CIA-RDP79T00975A029300010016-9

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National Intelligence Daily Cable for Friday, September 10, 1976

The NID Cable is for the purpose of informing senior US officials.

CONTENTS

CHINA: Transition after Mao Page 1

USSR-CHINA: Condolences for Mao Page 4

USSR: Grain Production Outlook Page 4

JAPAN-USSR: Frictions Mount Over MIG-25 Page 6

LEBANON: Situation Report Page 10

UK: Sterling Falls Sharply Page 10

PORTUGAL-ANGOLA: Re-establishing Relations Page 11

UN: Status of Puerto Rico Page 12

LIBYA: Oil Production Down Page 14

PORTUGAL: New Economic Measures Page 16

CHINA: Transition after Mao

25X1 [ ] The Chinese leadership has handled the immediate problems posed by Mao's death--funeral arrangements and mourning ceremonies--quietly and efficiently.

25X1 [ ] Within hours after Mao's death yesterday, Peking issued a lengthy and carefully worded obituary notice that made reference to all the slogans in current usage, including those associated with the anti-Teng campaign. The notice mentioned the need to continue Mao's revolutionary foreign policy line, a codeword for the opening to the US.

25X1 [ ] The mourning ceremonies, announced in detail yesterday, are a step above those for Chou En-lai. Mao will lie in state from September 11 to 17, compared with two days for Chou. All recreational activities have been suspended for the nine-day mourning period, which ends with a memorial service on September 18.

25X1 [ ] The entire nation will observe a simultaneous three-minute silent tribute. The memorial service may be held outdoors in Peking's Tienanmen Square, which can hold far more than the 5,000 people who attended Chou En-lai's funeral. Foreign countries have been asked not to send delegations to the funeral.

25X1 [ ] The party Central Committee, which apparently met in late August, will probably reconvene after Mao's funeral for a first round of political wrangling over the post-Mao leadership alignment. Peking has shown its usual signs of sensitivity about revealing who stands where in the hierarchy after the death of a leader. The roll of members of the funeral committee, announced yesterday, listed the Politburo in the Chinese equivalent of alphabetical order. Only the four members of the Politburo's elite standing committee were listed in order of political rank.

25X1 [ ] Both of the principal contending political factions in the leadership have been weakened in the past year. The more conservative elements, with the loss of Chou En-lai and Teng Hsiao-ping, lack a strong and widely respected leader around whom to rally. Defense Minister Yeh Chien-ying, in his late

70s, is now the leader of this group. His age precludes him from being a serious contender for the party leadership, but he will continue to exercise a moderating influence as long as he lives.

25X1 [ ] Premier Hua Kuo-feng is not a charter member of this group, although he seems to lean more toward the conservatives than he does toward the left. He has not had time, in his brief tenure as premier and first vice chairman of the party, to establish solid ties or a wide base of support. Moderates may calculate that Hua is not sufficiently strong for them to put all their eggs in his basket.

25X1 [ ] Lacking a strong leader, the moderates may be tempted to try to bring Teng back into the political picture. Any such move would be strongly opposed by the left, and could well fail. The campaign against Teng has been toned down but not turned off. He has been so thoroughly vilified that, although the rightists may look wistfully toward him, he would be a hard man to reinstate.

25X1 [ ] The left, too, has taken some blows this year. Mao's death has not helped their cause. Their current leader, standing committee member Chang Chun-chiao, is now probably less acceptable than previously to centrists because of his close identification with the leftist move against Teng earlier this year. This distrust of Chang has always existed to some extent, although centrists may have once found him less objectionable than some of his unreconstructed leftist associates.

25X1 [ ] The party seemed on the verge of naming Chang secretary general in 1973, but he was never officially given the title. Although he probably performs the functions of that powerful office, his failure to be named formally may have resulted from some opposition to him.

25X1 [ ] //More recently, Chang seemed to be the main challenger to Teng Hsiao-ping for the premiership. Since neither he nor Teng had the overwhelming endorsement of the party needed to act effectively in the job, Hua Kuo-feng was chosen as an apparent compromise.//

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Despite their respective weaknesses, both Hua and Chang are likely to make a run for the party leadership. Precisely because of their weaknesses, both men and any other civilian contenders will have to court the military who are in an excellent position to extract major concessions from the civilians.

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Not the least among these concessions would probably be an assurance that top positions in the military bureaucracy, such as chief of staff and head of the army's general political department, would be filled by military men. The general political department is currently headed by Chang Chun-chiao, a civilian, and the chief of staff job has been vacant since Teng Hsiao-ping's ouster.

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Ambitious military men, such as Politburo member Chen Hsi-lien, will be eager to secure for themselves a continuing role in politics. Although civilians of all political stripes are wary of allowing the army too much political power, the army could exploit differences among the civilians for its own ends.

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Civilians, however, are sufficiently wary of the military to be on guard against a possible coup attempt. The person in the best position to try such a move is Chen Hsi-lien, who commands the troops in the Peking Military Region. A coup attempt is most unlikely, and Chen seems more inclined to engage in hard bargaining to improve his personal political standing than in a naked power grab.

25X1

The division of labor among the leadership is probably going to be difficult to work out and subject to considerable horse trading. Should Premier Hua be formally declared head of the party, for example, he would be under pressure to relinquish the premiership.

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One of the many problems the left had with Teng Hsiao-ping was that he not only acted for Chou En-lai as premier but seemed also to be in charge of the party's day-to-day affairs. There are enough ambitious men who have waited a long time for their chance in the sun that any attempt to consolidate the party leadership and the premiership into the hands of one person would be strongly opposed.

25X1 [ ] The obituary notice, which contained a strong plea for unity, suggests that, despite deep-seated differences, the hierarchy will attempt to weather the immediate transitional period through the exercise of collegial leadership.

25X1 [ ] Formal discussion of the parceling out of the Maoist legacy will almost certainly be postponed until after the memorial service on September 18. No decisions may in fact be taken for some time, and there are many factors--internal and external--which will encourage the current members of the Politburo to work together. The leadership is fundamentally too divided and too inherently unstable, however, to remain harnessed together for very long. [ ]

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#### USSR-CHINA: Condolences for Mao

25X1 [ ] The Soviet Central Committee's message of condolences to the Chinese is the highest level message yet sent on the death of any Chinese leader and the first public party-to-party message to China since 1966.

25X1 [ ] The wording of the message for Mao is virtually identical to that sent when Premier Chou En-lai died last January, but it is less warm than that sent when Chu Te died in July. The Soviets praised Chu as "an outstanding revolutionary."

25X1 [ ] If the Soviets follow protocol, General Secretary Brezhnev, as head of the Soviet Central Committee, would make the condolence call at the Chinese embassy in Moscow. The Soviets almost certainly want to make a conciliatory gesture to the Chinese, and it therefore is not out of the question that Brezhnev himself would do the honors despite all the invective that the Soviets have heaped on Mao over the years.

25X1 [ ] The next ranking officials in the party hierarchy are Politburo members Kirilenko, who is on vacation, and Suslov. [ ]

#### USSR: Grain Production Outlook

25X1 [ ] We now estimate Soviet grain production this year at 200 million metric tons, up 5 million tons from our estimate

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in early August. Because of a near-record lateness in ripening and harvesting, the final crop remains uncertain. Beginning in early September, poor harvesting conditions--including the possibility of early frost and snow--often prevail.

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[ ] A crop of 200 million tons would exceed last year's by some 60 million tons and would be second only to the record Soviet crop of 222.5 million tons in 1973.

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[ ] The US Department of Agriculture currently estimates the Soviet crop at 205 million tons.

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[ ] Recent statements by Soviet leaders reflect a favorable outlook. Speaking at Alma-Ata last week, General Secretary Brezhnev acknowledged food shortages but said that, despite problems, "The grain yield figures have been pleasing. They show that the country will have enough grain this year."

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[ ] First Secretary of Kazakhstan Kunayev said that this important grain-producing region might produce more than 27 million tons of grain, just 2 million tons short of the region's record crop.

25X1

[ ] Soviet Agriculture Minister Mesyats reportedly told a Yugoslav delegation in August that this year's grain crop would exceed 200 million tons.

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[ ] Weather conditions during the balance of the harvest will play an abnormally large role in determining the size and quality of the crop. Cool, wet weather in much of European Russia throughout the summer has delayed harvesting. By September 1, only 52 percent of the area sown to grain had been harvested, compared to a five-year average of 62 percent.

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[ ] Time is growing short for completing the harvest on the remaining 65 million hectares of grain crops. Even before October 1 there is considerable risk of severe frost or snow that could reduce yields in areas with relatively short growing seasons. Light frosts have already occurred in West Siberia. Continuing rains during the harvest and an early onset of winter could lead to losses if the pace of the harvest does not quicken.



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[ ] Grain quality may be a problem in any event. A large share of the cereal grains harvested in European USSR is expected to be unsuitable for flour milling because of wetness. This problem is intensified in "wet" years by the shortage of high-capacity mechanical dryers to dry the grain before storage.

25X1

[ ] If favorable grain crop prospects hold, Soviet grain purchases abroad should not exceed 14 million tons, a little more than half the amount bought in 1975. A Soviet grain trade official implied last month that the USSR's grain purchases would total about 13.5 million tons. Purchases of this size would cost roughly \$3.5 billion, compared with the nearly \$4.5 billion spent for grain last year.

25X1

[ ] So far this year, the Soviets have bought 10.5 million tons of grain--5 million tons of wheat and 5.5 million tons of feedgrain--and 2 million tons of soybeans. Of this amount, about 9 million tons will come from the US and the remainder from Canada, Australia, Brazil, and New Zealand. Moscow is still obligated to take 1.6 million tons more of US grain to meet the 6-million-ton minimum stipulated under the first year of the US-USSR grain agreement.

25X1

[ ] The Soviet purchases have been made in three rounds; the first was in late April and early May, the second during the first half of July, and the third is currently under way. According to market speculation, Moscow will contract this time for 2 to 2.5 million tons of grain from the US and perhaps 1 to 2 million tons from other sources. This could end the Soviet purchases for the year unless severe quality problems with the domestic crop drive Moscow back into the market for additional wheat.

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#### JAPAN-USSR: Frictions Mount Over MIG-25

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[ ] Friction between Tokyo and Moscow over the handling of the MIG-25 mounted yesterday with the delivery of a harshly worded Soviet protest.

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[ ] Shortly before Soviet defector Belenko left for the US, Ambassador Polyansky delivered a written statement to Deputy Foreign Minister Arita which:

--Noted that Japan had not yet replied to repeated Soviet demands for prompt return of the pilot and the plane.

--Termed Belenko's arrival in Japan the result of an emergency landing and his request for asylum a Japanese fabrication.

--Accused Japanese authorities of forcibly moving Belenko to Tokyo.

--Alleged that denial of Soviet access to Belenko violated bilateral consular agreements.

--Described Japanese actions as unfriendly to the Soviet Union.

--Warned Tokyo not to be influenced by third countries.

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[ ] In response, Arita affirmed that Belenko would be allowed to seek asylum in the US, that a Soviet official could see Belenko prior to his departure (a meeting was subsequently held), and "took note" of Moscow's desire for an early return of the plane. Arita also reminded Polyansky that Tokyo wanted a satisfactory explanation of the violation of Japan's territorial airspace.

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[ ] The Soviet statement is being publicized in Tokyo and will probably have a negative effect on public opinion. Under coaching from the Foreign Ministry, the Japanese press has already begun to stress the theme that the violation of Japanese airspace makes it imperative for Moscow to take a conciliatory attitude before negotiations begin over return of the plane. A Foreign Ministry spokesman also has been quoted as saying that once talks with the Soviets are under way, the plane probably could be returned in about a month.

25X1

[ ] So far, the intense political infighting over Prime Minister Miki's tenure in office does not seem to have had a major impact on Tokyo's handling of the affair. Foreign Minister Miyazawa and Defense Agency Director Sakata are serving as the government's major spokesmen; Miyazawa has so far deflected Soviet demands, while Sakata has argued forcefully for a thorough inspection of the MIG-25 by the Defense Agency.

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[ ] For his part, Miki has been more cautious. He publicly instructed his foreign minister yesterday to handle the incident "carefully" and to ensure that Belenko indeed wished to defect.

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[ ] The incident, in fact, could contribute to a continuation of the political impasse. Miki had earlier threatened to force a showdown with his challengers at a cabinet meeting today, but the need to address the Soviet problem and the general inclination of both Miki and his opponents to avoid taking an irrevocable step in their political competition should serve to maintain the deadlock a while longer.

25X1

[ ] Moscow evidently believes that it has a chance of getting the plane back and of persuading the Japanese to limit its availability to the US. The Soviets may also be attempting to use the incident to put the Japanese on the defensive regarding Soviet-Japanese relations. The idea would be to make it that much harder for Tokyo to move ahead with peace-treaty negotiations with China or to renew pressure on the northern territories issue.

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[ ] The MIG-25 incident came at a time when the Soviets have been making some attempt to breathe fresh life into economic dealings with Japan. Last month, General Secretary Brezhnev received Japanese industrialists during his Crimean vacation, and the Soviet media have been featuring material extolling prospects for Soviet-Japanese economic cooperation and designed to show that the Soviet Union would be a more reliable trading partner than China. The MIG-25 incident will probably put these efforts on the shelf for the time being.

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[ ] The Soviets evidently are putting out phony stories in Europe that Tokyo will be acting aberrantly if it makes the MIG-25 available to the US. Soviet "journalist" Victor Louis has a story in a French newspaper asserting that the normal "usage" is to forgo passing such equipment to US experts.

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[ ] Louis even claims that Israel has followed this course, despite its extensive opportunities. In trying to establish this "principle" of proper behavior, the Soviets may hope to salvage something out of the MIG-25 affair that can be put to use in the future. [ ]

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LEBANON: Situation Report

The principal Lebanese Christian leaders have completed their talks with Syrian President Asad. We have no details on the talks, but the two sides appear to have agreed to postpone any political or military initiatives until after the transfer of power to president-elect Sarkis on September 23.

25X1

UK: Sterling Falls Sharply

//The British pound fell more than three cents to \$1.73 yesterday morning before recovering to end the day at \$1.74, down 1.4 percent from Wednesday. Sterling's fall took less than 20 minutes after the Bank of England apparently abandoned its support point of \$1.77.

//The sharp decline came as London banks quickly discounted the pound when the Bank's move became apparent. British monetary authorities appear to have changed tactics to prevent a further deterioration of monetary reserves and to avoid further heavy drawings on their \$5.3-billion standby credit.

//London currency dealers estimated that the Bank may have spent \$40 to \$50 million in support of the pound before withdrawing, possibly bringing its total intervention so far this month to over \$400 million.

//Currency traders appear to have been moving out of sterling because of the impending strike by British seamen, which could undermine prospects for Britain's economic recovery. The seamen's strike, announced yesterday, is the most serious challenge to date of the Labor government's anti-inflation program.

//Senior Trades Union Congress officials have condemned the strike plans and are making an all-out effort to head off the walkout. Congress officials met with the seamen's leaders throughout the day yesterday, but with little evidence of progress. More talks are scheduled for today.

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[ ] //Although the Labor government has so far refrained from direct intervention in the dispute, the cabinet has met in special session to discuss a declaration of emergency in the event of a strike. Prime Minister Callaghan has delayed the start of an official visit to Canada, perhaps to stand by for a personal intervention should the seamen ignore the pleas of their fellow trade unionists.//

25X1

[ ] /The Bank of England's change in tactics created tense currency conditions elsewhere in Europe, including a sharp advance by the German mark and increased pressure on the European joint float. The Belgian franc, Danish crown, and Norwegian crown were at their lower intervention points against the mark at the close of Frankfurt trading. The value of the Japanese yen also rose sharply. [ ]

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#### PORTUGAL-ANGOLA: Re-establishing Relations

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[ ] Lisbon has announced that the Portuguese and Angolan foreign ministers will meet "as soon as possible" to work out details for re-establishing diplomatic relations.

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[ ] A senior official of the Portuguese Socialist Party told Ambassador Carlucci on Tuesday that rapid progress is being made toward resuming relations with Angola and that ambassadors could be in place by the end of September. The Portuguese Foreign Office will send an administrative specialist to Luanda next week to determine the requirements of a diplomatic mission in the Angolan capital. His visit will be followed by a team of economics specialists.

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[ ] The Socialist official, who was a member of the party delegation that visited Luanda last week, stressed--as had Prime Minister Soares in a recent talk with Ambassador Carlucci--the apparent eagerness of Angolan officials to renew ties with Portugal. They want Portuguese technical assistance as well as Lisbon's help in building contacts with Western Europe and the US. [ ]

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UN: Status of Puerto Rico

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[ ] The dispute over whether Puerto Rico's status should be considered by the UN General Assembly at its session beginning on September 21 was avoided when the Cubans agreed this week not to table their draft resolution in the UN Committee on Decolonization.

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[ ] It would have reaffirmed Puerto Rico's right to independence, urged the US to abide by the UN resolution on the right of self-determination, and requested the US to refrain from "repressive" and "colonial" maneuvers in Puerto Rico.

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[ ] The Cubans, anticipating defeat on their resolution, went along with the rest of the committee in accepting a Norwegian proposal to assign a rapporteur the task of updating the committee's report of 1974 on Puerto Rico. The Cubans probably hope that since the updating of the report will be assigned to Syria--a relatively radical committee member--there will be an opportunity to renew attacks on US administration of the island and a possibility of getting a condemnatory report.

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[ ] The committee participants also agreed to consider follow-up measures to the committee's previous resolutions on Puerto Rico when discussion of this issue resumes next year.

25X1

[ ] //The Castro regime has undoubtedly been disappointed by the lack of support it has received on Puerto Rico from many Latin American countries. The Cubans are taking a long view of this issue, however, and will continue to harass the US on the question of Puerto Rican independence.//

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## LIBYA: Oil Production Down

25X1 [ ] //Erratic government policies have sharply reduced Libyan oil production over the past five years. After hitting a peak of 3.7 million barrels per day in April 1970, production fell to about 2.2 million barrels per day in 1972, largely because of Tripoli's restrictions on oil companies.//

25X1 [ ] //Output has continued to decline, hitting a low of about 920,000 barrels per day in February 1975, because Libyan crude was substantially overpriced in a period of extremely weak demand. The government responded by cutting prices and putting pressure on the companies to boost output and foreign sales.//

25X1 [ ] //After production recovered to 2.1 million barrels per day in the summer of 1975, Tripoli made another about-face by ordering major foreign firms to cut production by more than one fourth. Although conservation was given as the justification, the key reasons were to prevent stockpiling of Libyan oil prior to the anticipated OPEC price increase in October 1975 and to forestall criticism from the other cartel members for the earlier price cuts.//

25X1 [ ] Nationalization has also contributed to the fall in production. By early 1974 the Qadhafi regime had taken over 65 percent of the industry. As a result of the takeover and Tripoli's wavering production policies, exploration and development activity remains depressed. Last year, for example, only 89 wells were drilled, compared with about 280 a year in the late 1960s.

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[REDACTED] //The government is once again giving companies the go-ahead to increase production. Libyan oil policy this year is aimed at increasing output to an average of 2.2 to 2.3 million barrels per day.//

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[REDACTED] //Production almost certainly will fall short of the government's target for 1976 by several hundred thousand barrels per day. During the next four years, we believe output is unlikely to exceed 2.3 million barrels per day. Although proved and probable reserves--estimated at 27 billion barrels--are sufficient to support 2.5 million barrels per day annually for about 30 years, expansion will be hampered by continued technical problems, bureaucratic indecision, and political instability under the current regime.//

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[REDACTED]

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[REDACTED] //Spurred by high demand for its crude, Tripoli could opt for a complete nationalization of the industry--patterned after the evolving trend within OPEC. The government would then have to decide on a case-by-case basis whether to retain the services of the foreign oil companies currently operating in Libya or to bring in new firms under service contracts.//

25X1

[REDACTED] //Although we have no evidence that Tripoli is actually contemplating further takeovers, the foreign operators cannot rule this out, given the record of the Qadhafi regime.//

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[REDACTED] Libya, the fifth largest OPEC oil producer, in July accounted for 7 percent of total OPEC oil production. [REDACTED]

25X1

[REDACTED]

PORTUGAL: New Economic Measures

25X1 [ ] Portuguese Prime Minister Soares last night announced new stabilization measures he said would help save the country from economic collapse.

25X1 [ ] The package appears to be the first step toward regaining some control over the ailing economy. Soares pledged:

--To reduce Portugal's balance-of-payments deficit by increasing taxes on imports, banning imports of luxury goods, and boosting exports through special credits.

--To curb inflation by setting up a wage and price commission and by holding down prices on essential goods.

--To fight unemployment by sharply increased public works spending and by prohibiting workers from holding more than one job.

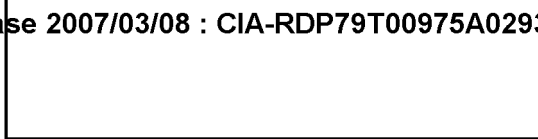
--To restore labor discipline and stimulate productivity by banning political meetings on the job, limiting strikes, and denying wages to striking workers.

--To reverse the illegal seizure of farmland.

25X1 [ ] Soares, whose cabinet and advisers were divided over how strong the measures should be, reportedly looked very tired when making the announcement and stammered at points.

25X1 [ ] His decision to take the tough line advocated by more conservative advisers will probably please most Portuguese, who appear willing to accept some sacrifice as the price for ending the political and economic chaos of the past two years.

25X1 [ ] In what was widely considered to be the first real test of the minority government's authority and determination, Soares blamed the Communists and the far left for problems in the areas of agrarian reform and nationalized industries. The Communists can be expected to use their influence in labor to take advantage of whatever unfavorable worker reaction there might be to the measures, but Soares vowed to put an end to Communist trouble making.



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[ ] Soares said that 80 percent of Portugal's gold and foreign currency reserves had been exhausted since the 1974 coup, but he expressed confidence that his program would attract more Western aid.

25X1

[ ] He is counting on the promise of foreign loans, especially from the US, and may hope foreign support will enable him to get the economy moving and at the same time avoid tougher and more unpopular austerity measures.

25X1

[ ] Soares' stabilization program will help the balance of payments and reduce unemployment but will do little to stimulate private investment or agricultural production.

25X1

[ ] Stringent wage controls, higher tariffs, and the ban on luxury imports should slow the outflow of foreign exchange. Wage controls and export credits would aid export industries that have been badly hurt by rising costs. Imports have been running about double exports.

25X1

[ ] The measures prescribed by Soares probably will not stimulate foreign and domestic private investment as much as is needed, given Portugal's 15-percent unemployment rate and a 10-percent drop in gross national product last year. Investors will need further assurance that they can operate without undue interference from the government or from Communist-led unions.

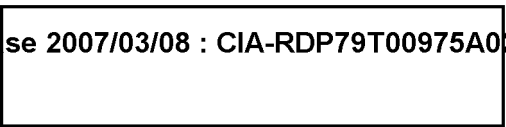
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[ ] In addition, Soares' efforts to restore labor discipline must be followed through, and businessmen will need effective guarantees that managerial prerogatives will not be usurped by workers. Wage and price controls must allow an adequate return on investment as well.

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